B.

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

UNITED CIGAR-WHELAN STORES CORPORATION

REPORT

FOR THE PERIOD

JULY 17 1937 to DECEMBER 31

1937

INVESTMENT
DIVISION
MAY 5 - 1938
RECEIVED

UNITED CIGAR-WHELAN STORES CORPORATION

Board of Directors

GLADDEN W. BAKER
WALTER G. BAUMHOGGER
LOUIS K. COMSTOCK
MILTON DIAMOND
PETER GRIMM
WALLACE GROVES
RAY C. KRAMER
EDWARD A. LEROY, JR.
WALTER S. MACK, JR.
ROBERT J. MARONY
ALLEN L. WOODWORTH

Officers

ALLEN L. WOODWORTH ..... *President*
HENRY GOLDBERGER ..... *Vice President*
HOWARD J. MOFFETT ..... *Vice President*
MICHEL A. BOUVIER ..... *Vice President*
HARRY RUBENOFF ..... *General Counsel, Secretary-Treasurer*
JAMES P. McNAMARA ..... *Comptroller*
JOHN A. HAMPSON ..... *Ass't. Secretary-Treasurer*

Special Counsel

WHITE & CASE
14 WALL STREET, NEW YORK

Auditors

PRICE, WATERHOUSE & CO.
56 PINE STREET, NEW YORK

General Offices

330 WEST 42ND STREET, NEW YORK

REPORT OF

UNITED CIGAR-WHELAN STORES CORPORATION

For the period July 17, 1937 to December 31, 1937

---

330 West 42nd Street,
New York, N. Y.

To the Stockholders:

Submitted herewith is a report of your company's financial operations from July 17, 1937 to December 31, 1937 (five and one-half months), together with a consolidated balance sheet as of December 31, 1937 and a consolidated statement of profit and loss and surplus for the period, certified by our auditors, Messrs. Price, Waterhouse & Co. The reorganization of United Cigar Stores Company of America and Subsidiaries, pursuant to the Plan of Reorganization approved by the Court, was effected and the business taken over from the Trustee on July 17, 1937.

Total current assets at the end of the year amounted to $9,544,632.11, including $3,254,190.46 in cash, and total current liabilities amounted to $3,893,815.20.

As at July 17, 1937 a reserve was set up for contingencies and for administration and reorganization expenses. After provision for all unpaid reorganization and administration expenses at December 31, 1937 (including those allowed by the Court), which were paid in 1938, there remained a balance in this reserve of $500,000 to cover contingent liabilities. This balance is believed more than adequate to cover any contingent liabilities of the company; however, in view of the short time that has elapsed since reorganization, it has not been deemed advisable at this time to transfer any portion of this reserve to Initial Surplus.

Real estate owned in fee, after deducting reserves for depreciation and outstanding mortgages of $1,407,287.50, was carried at $2,256,631.51 at December 31, 1937. Since that date real estate having a book value of approximately $1,781,000, after deducting mortgage obligations, has been sold for approximately $1,836,000. Proceeds from the sales of real estate have been used to retire $2,425,500 principal amount of the company's outstanding Five Percent Sinking Fund Bonds. The company has materially reduced its funded debt so that at April 29, 1938 there were $3,214,800 principal amount of bonds outstanding in the hands of the public as compared with the original issue of $5,946,800 and outstanding mortgages have been reduced from $1,407,287.50 at December 31, 1937 to $997,287.50 at April 29, 1938. Sales of real estate have been made with a view towards reducing the company's fixed interest charges and also to enable the management to confine its efforts to the conduct and promotion of its extensive merchandising business.

Net sales for the year 1937 were $54,919,400 as compared with $55,359,280 for the year 1936, a decrease of $440,000, or about ¾ of 1%. However, gross profit from sales increased approximately $600,000 over 1936 due mainly to improved merchandising methods. At the year end, the company had 1,531 retail outlets, comprised of 1,122 United Cigar stores and agencies, and 409 Whelan Drug stores and agencies.

Inasmuch as the business was operated by the Trustee in reorganization proceedings prior to July 17, 1937, it is not possible to furnish a profit and loss statement of the full year's operations on a comparable basis. For your information, however, the profit and loss statement of the Trustee's operations for the first six and one-half months of 1937 is included herein.

Profit for the period from July 17, 1937 to December 31, 1937 (five and one-half months) amounted to $200,716.17, after making provision for all charges, including bond interest, depreciation, amortization and Federal income and undistributed profits taxes, and included in the above profit is $145,973.61 representing the excess of principal amount over cost of company's Five Percent Sinking Fund Bonds purchased, less Federal taxes thereon.

When the business was taken over from the Trustee on July 17, 1937, operating expenses had been substantially increased during the previous few months, the full effect of which is reflected in the operating results of the new company; salaries and wages were running at an increased annual rate of approximately $650,000 over the same period of 1936 and unemployment and old-age benefit taxes had increased approximately $150,000 annually over 1936. The usual difficulties following a receivership were experienced in the reorganization of this company, and after five years in bankruptcy and uncertainty as to the future, the morale of the organization was very low.

Prior to the reorganization there was much labor unrest and strikes had occurred during the spring in Philadelphia and San Francisco. In the Philadelphia area all our cigar stores were closed for about a month; in San Francisco all our stores were closed for eleven weeks, and our warehouse which services the entire Pacific Coast and Rocky Mountain States was also closed during this labor strike. It was not until a full month after the reorganization that we were able to clear up this situation.

These conditions were followed by a strike in the drug stores in New York City during the Christmas holiday season, which lasted for seven weeks. However, we were able during this period to keep the stores open and maintain complete service to the public.

In the areas where our stores were closed for many weeks the loss of business was obviously costly, and although these strikes were finally settled satisfactorily to the management and its employees, they did retard our progress. Nevertheless, the increased margin of gross profit obtained, and substantial economies effected in the latter part of 1937 offset, to a considerable extent, adverse conditions with which we have had to cope. However, this business along with all retail business has been adversely affected by the general business decline during the past few months.

Recognizing the necessity of an efficient organization and sound relations with our employees to obtain the best in operating results, we are putting particular emphasis on improving the personnel and its morale, through proper training and better organization. Changes of this kind require considerable time to effect, but nevertheless are important and necessary and should reflect themselves in improved operations.

Merchandising and promotional methods are being modernized and intensified to stimulate sales. A program is in operation to effect the improvement or elimination of unprofitable stores and calls for the opening of new and modern stores and agencies. A close budgetary control was inaugurated as of January 1 of this year which should effect a further reduction in expense. Time will be required to carry out these plans and secure results, but we feel that we are headed in the right direction, and as this program develops, with a return of normal conditions in the retail merchandising field, operating results should show improvement.

The management is appreciative of the confidence and cooperation of the stockholders, of the loyalty of the employees and of the helpful patronage of both.

By order of the Board of Directors,

ALLEN L. WOODWORTH,
President.

April 29, 1938.

CONSOLIDATED BALANC

Assets

Current Assets:			
Cash in banks, in transit and on hand		$3,254,190.46	
Notes and accounts receivable:			
Trade	$ 301,539.62		
Other	254,765.11		
	$ 556,304.73		
Less—Reserve for doubtful notes and accounts	55,294.45	501,010.28	
Account receivable from wholly owned subsidiary not consolidated		5,231.50	
Merchandise inventories at cost or market whichever is lower (certified by responsible executives and officers as to quantity and marketable condition)		5,784,199.87	
			$ 9,544,632.11
Investments and Advances:			
Merchandise advances to agents		$ 552,600.00	
Securities deposited under lease agreements, etc., at cost		28,019.69	
Other securities at or below cost, less reserve		60,313.38	
Mortgages receivable on real estate, less reserve (see Note C)		114,333.33	
Claims against closed banks, less reserve		49,382.01	
Cash held by mortgage trustee (see Note B)		45,933.63	
Investment in The Lincoln, Inc., a wholly owned subsidiary (see Note A)		500,000.00	
			1,350,582.04
Fixed Assets:			
Real estate owned in fee (see Notes B and C)	$3,904,483.93		
Less—Reserve for depreciation on buildings	240,564.92	$3,663,919.01	
Furniture, fixtures and equipment (see Note D)	$4,408,784.29		
Less—Reserve for depreciation	2,871,081.29	1,537,703.00	
Improvements to leaseholds, less amortization		713,833.94	
Construction in progress		50,695.73	
			5,966,151.68
Deferred Charges:			
Unexpired insurance premiums		$ 106,865.35	
Prepaid rent and lease deposits		99,767.03	
Prepaid taxes and licenses		128,331.57	
Supplies		49,685.26	
Unamortized discount and expenses of mortgage bond issue of subsidiary company		21,138.25	
Miscellaneous		36,090.55	
			441,878.01
			$17,303,243.84

To the Board of Directors of
United Cigar-Whelan Stores Corporation:

We have made an examination of the consolidated balance sheet of United Cigar-Whelan Stores Corporation the period July 17, 1937 to December 31, 1937. In connection therewith we examined or tested accounting records of the c we also made a general review of the accounting methods and of the operating and income accounts for the period but we d

On or about July 16, 1937 the accounts of the Estate of United Cigar Stores Company of America, Debtor, and the E into or consolidated with the present United Cigar-Whelan Stores Corporation, a new company incorporated July 12, 1937. Debtor, and its subsidiaries was operated by the Irving Trust Company under Section 77B of the National Bankruptcy Act during 1936 and the major portion of the period January 1 to July 16, 1937 inclusive. As stated in Note G to the consolidate

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of pr since the reorganization referred to above, the position of United Cigar-Whelan Stores Corporation and its consolidated subsidia

STORES CORPORATION
BSIDIARY COMPANIES

HEET—DECEMBER 31, 1937

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable		$2,568,133.98	
Accrued taxes		436,200.96	
Accrued interest		83,057.03	
Other accrued liabilities		180,941.36	
Provision for Federal income taxes		171,664.07	
Agents' deposits, etc.		85,408.85	
Accrued administration and reorganization expenses (see Note E)		368,408.95	
			$ 3,893,815.20
FUNDED AND MORTGAGE DEBT:			
Five percent sinking fund bonds, due October 1, 1952:			
Issued	$5,946,800.00		
Less—in treasury	544,500.00	$5,402,300.00	
4½% mortgage bonds (see Note B)		365,000.00	
Real estate mortgage obligations (including $100,000 demand obligation)		1,042,287.50	
			6,809,587.50
RESERVE FOR CONTINGENCIES (see Note E)			500,000.00
CAPITAL STOCK AND SURPLUS:			
Cumulative Five Dollar Preferred Stock:*			
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at, $100 per share)			
Issuable under the Plan of Reorganization—63,657 shares at stated value of $75 per share		$4,774,275.00	
Common stock:			
Authorized—6,000,000 shares of ten cents (10¢) par value (see Note F)			
Issuable under the Plan of Reorganization—5,709,924 shares**		570,992.40	
Initial surplus		553,857.57	
Earned surplus since inception (July 17, 1937)		200,716.17	
			6,099,841.14
			$17,303,243.84

* Cumulative dividends not declared or accrued to December 31, 1937 amounted to $132,618.75

** Does not include 12,000 shares held in treasury of company

56 PINE STREET,
NEW YORK, APRIL 29, 1938.

l its consolidated subsidiary companies as at December 31, 1937 and of the related statement of profit and loss and surplus for panies and other supporting evidence and obtained information and explanations from officers and employees of the companies; not make a detailed audit of the transactions.

e of Cigar Stores Realty Holdings, Inc., Debtor, together with the accounts of certain other affiliated companies, were merged ring 1936 and the period from January 1 to July 16, 1937 inclusive, the business of United Cigar Stores Company of America, The business of Cigar Stores Realty Holdings, Inc., Debtor, was operated by the Irving Trust Company, Trustee in Bankruptcy, alance sheet, the statements prepared for the predecessor companies are not comparable in all respects with those attached.

and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies companies as at December 31, 1937 and the results of their operations for the period July 17, 1937 to December 31, 1937.

PRICE, WATERHOUSE & Co.

UNITED CIGAR-WHELAN STORES CORPORATION

AND CONSOLIDATED SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1937

NOTE A—The Lincoln, Inc. owns and operates the Hotel Lincoln. According to the books of the company at December 31, 1937, its net worth was $598,693.26, an increase of $2,401.98 over its net worth at July 17, 1937. Such net worth is represented principally by the equity in the land and building and the hotel furniture and fixtures, based on an independent appraisal made in June 1937.

NOTE B—The real estate owned by Granby Norfolk Corporation, a subsidiary, was sold in March 1938. The net proceeds of sale, after deducting commission and expenses and an amount necessary to retire the existing mortgage bonds of $365,000, were approximately $411,000. The subsidiary obtained a loan of $340,000 on December 29, 1937, secured by notes and a mortgage lien on the property, which together with the sum of $45,933.63 already on deposit with the Trustee under the mortgage bonds, was used to retire the outstanding mortgage bonds on the property on March 15, 1938 and the loan of $340,000 was also paid off as of that date. These transactions have not been reflected in the balance sheet as at December 31, 1937.

NOTE C—Mortgages on real estate and real estate owned in fee are carried at values based on an appraisal by an employee of the company at June 30, 1936 plus subsequent additions at cost. Real estate (including the property mentioned in Note B), having a book value of approximately $1,781,000 after deducting reserves for depreciation and mortgage obligations, was sold, or under contract for sale, in 1938, for a net amount of approximately $1,836,000.

NOTE D—Furniture, fixtures and equipment include approximately $1,200,000 on which the reserve for depreciation is equal to the asset.

NOTE E—In accordance with the Plan of Reorganization, dated March 23, 1937, the company assumed the contracts, liabilities and obligations of Irving Trust Company, as Trustee in Bankruptcy, and as Trustee in Reorganization of United Cigar Stores Company of America and Cigar Stores Realty Holdings, Inc., and in connection therewith provision was made for contingencies and for administration and reorganization expenses. The balance of $368,408.95 in accrued administration and reorganization expenses covers fees and expenses allowed by the Court in December 1937, not paid until 1938, together with provision for miscellaneous reorganization expenses not yet paid by the company. After providing for reorganization expenses, the balance of $500,000 has been set aside in Reserve for Contingencies to cover contingent liabilities, and in the opinion of the officers of the company is more than adequate.

NOTE F—225,000 shares of authorized but unissued Common Stock have been reserved for purchase by the President of the company, subject to the terms and conditions of an option and certain warrants, at $1.62½ per share at any time prior to January 16, 1941.

NOTE G—United Cigar-Whelan Stores Corporation was incorporated July 12, 1937. On or about July 16, 1937, the accounts of the Estate of United Cigar Stores Company of America, Debtor, and the Estate of Cigar Stores Realty Holdings, Inc., together with the accounts of certain other affiliated companies, were merged into or consolidated with the present United Cigar-Whelan Stores Corporation. During 1936 and the period from January 1 to July 16, 1937 inclusive, the business of United Cigar Stores Company of America, Debtor and its subsidiaries was operated by the Irving Trust Company under Section 77B of the National Bankruptcy Act. The business of Cigar Stores Realty Holdings, Inc. was operated by the Irving Trust Company, Trustee in Bankruptcy, during 1936 and the major portion of the aforementioned period. The attached consolidated balance sheet as at December 31, 1937 and the statement of profit and loss and surplus for the period July 17, 1937 to December 31, 1937 are not comparable in all respects with statements prepared by the Trustee referred to above, as adjustments were made to certain accounts as at the opening of business July 17, 1937 and since July 16, 1937 certain administrative expenses and bond interest not previously incurred or charged to operations have been included as expenses in the attached statement of profit and loss and surplus.

UNITED CIGAR-WHELAN STORES CORPORATION

AND CONSOLIDATED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND SURPLUS

JULY 17, 1937 TO DECEMBER 31, 1937

(Five and One-Half Months)

STORE AND AGENCY OPERATIONS:		
Net sales after deducting stamp and sales taxes		$25,463,550.23
Cost of sales		19,218,066.61
		$ 6,245,483.62
Display advertising, commissions from public telephones, vending machines, etc.		635,542.38
Gross profit and other store operating income		$ 6,881,026.00
Store, depot and agency operating and general expenses (before depreciation and amortization)		6,571,604.14
Profit from store and agency operations, before depreciation and amortization		$ 309,421.86
PROFIT FROM REAL ESTATE OPERATIONS, BEFORE DEPRECIATION AND AMORTIZATION		121,527.45
OTHER INCOME:		
Interest and dividends received	$ 15,766.00	
Miscellaneous	2,868.09	18,634.09
		$ 449,583.40
OTHER CHARGES:		
Loss on disposition of furniture and fixtures	$ 15,483.96	
Miscellaneous	21,672.04	37,156.00
Profit from operations before depreciation and amortization, bond interest and Federal income taxes		$ 412,427.40
Less: Depreciation and amortization		204,714.07
Profit from operations before bond interest and Federal income taxes		$ 207,713.33
Less: Interest on five per cent sinking fund bonds		134,058.41
Balance		$ 73,654.92
PROVISION FOR:		
Federal income tax	$ 9,086.00	
Surtax on undistributed profits	9,826.36	18,912.36
Profit from operations after bond interest and taxes		$ 54,742.56
PROFIT DERIVED FROM PURCHASES OF THE COMPANY'S FIVE PER CENT SINKING FUND BONDS REPRESENTING THE EXCESS OF PRINCIPAL AMOUNT OVER COST THEREOF, LESS FEDERAL TAXES		145,973.61
Total profit representing earned surplus for the period July 17, 1937 to December 31, 1937		$ 200,716.17

NOTE—Reference is made to Note G to the balance sheet.

REPORT OF THE TRUSTEE'S OPERATIONS AS OF THE CLOSING OF REORGANIZATION PROCEEDINGS, JULY 16, 1937

ESTATE OF UNITED CIGAR STORES COMPANY OF AMERICA, *Debtor*

AND CONSOLIDATED SUBSIDIARY COMPANIES
(Including Estate of Cigar Stores Realty Holdings, Inc.)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE PERIOD JANUARY 1, 1937 TO JULY 16, 1937 INCLUSIVE (SIX AND ONE-HALF MONTHS)

STORE AND AGENCY OPERATIONS:			
Net sales after deducting stamp and sales taxes			$29,455,853.90
Cost of sales			22,184,897.05
			$ 7,270,956.85
Other store operating income:			
Display advertising, allowances, etc.		$ 361,053.43	
Pipe profit, less pipe expenses		25,899.44	
Commissions from public telephones, vending machines, etc.		262,868.94	649,821.81
Gross profit and other store operating income			$ 7,920,778.66
STORE, DEPOT AND AGENCY OPERATING AND GENERAL EXPENSES:			
Rent paid (see Note D)		$ 1,969,998.30	
Repairs		105,842.52	
Depreciation		138,302.80	
Amortization of store improvements		83,308.07	
Taxes other than Federal income and excess profits taxes		174,573.58	
Salaries and wages		3,687,698.39	
Other		1,544,850.41	7,704,574.07
Net profit on store and agency operations			$ 216,204.59
REAL ESTATE OPERATIONS:			
Rents received (includes $307,437.76 charged to stores above) (see Note D)		$ 651,044.23	
Collection of rents previously considered uncollectible		216.64	
		$ 651,260.87	
Operating and general expenses:			
Rent paid	$362,648.63		
Repairs	6,504.64		
Depreciation	16,230.00		
Amortization of leasehold improvements	6,397.62		
Taxes other than Federal income and excess profits taxes	86,154.13		
Interest on mortgages	26,530.00		
Amortization of bond discount and expense	1,859.00		
Other	62,343.92	568,667.94	
Net profit on real estate operations			82,592.93
OTHER INCOME:			
Interest received		$ 10,209.35	
Dividends received		105.55	
Miscellaneous		3,564.45	13,879.35
			$ 312,676.87
OTHER CHARGES:			
Loss on disposition of furniture and fixtures		$ 20,670.95	
Interest paid		2,453.41	
Miscellaneous		152.60	23,276.96
			$ 289,399.91
PROVISION FOR FEDERAL INCOME TAX			50,651.84
Net profit for the period January 1, 1937 to July 16, 1937 inclusive, subject to notes attached			$ 238,748.07

REPORT OF THE TRUSTEE'S OPERATIONS AS OF THE CLOSING OF REORGANIZATION PROCEEDINGS, JULY 16, 1937

ESTATE OF UNITED CIGAR STORES COMPANY OF AMERICA, *Debtor*

AND CONSOLIDATED SUBSIDIARY COMPANIES
(Including Estate of Cigar Stores Realty Holdings, Inc.)

NOTES TO CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE PERIOD JANUARY 1, 1937 TO JULY 16, 1937

(A) No provision was made in the above statement for additional administrative, legal and other expenses which will have to be deducted from the income of the company after reorganization, nor was any provision made for the interest on the bonds of United Cigar-Whelan Stores Corporation accrued from April 1, 1937.

(B) This statement does not include:

(1) Loss of $43,294 on sale of real estate.

(2) Display and installment bonus accounts receivable amounting to $24,923.05 written off.

(3) Trustee's administration expenses paid during period January 1, 1937 to July 16, 1937 inclusive amounting to $149,252.97.

(4) Provision of $50,000 to reduce merchandise inventory at July 16, 1937 to cost.

(5) The loss of $90,829.12 from operations of the Hotel Lincoln property for the period from January 1, 1937 to July 16, 1937 inclusive.

(6) Losses of Redmond Realty Co., Inc. and Baeder Properties, Inc., wholly owned inactive subsidiary companies, whose liabilities are in excess of the estimated realizable value of their assets.

(C) No provision was made in the above statement for Trustee's administration, legal and other expenses. Those paid during the period are referred to in Note B (3) above.

(D) Substantially all intercompany transactions have been eliminated except rents of $307,437.76 referred to under real estate operations and under store, depot and agency operating and general expenses in this profit and loss statement.

CIGARS
UNITED
DRUGS
WHELAN